

Budget Overview

The City of Memphis has begun the economic return to pre-recession levels as tax revenues show a slow, but sturdy growth, jobs return to the Bluff City, cultural amenities begin to blossom and industry makes Memphis a “City of Choice”. The Fiscal Year 2016 (FY2016) budget conservatively embraces economic positives and carefully apportions increased investments in priorities: *creating safe and vibrant neighborhoods, growing prosperity and opportunity for all, investing in our young people, and advancing a culture of excellence in government*. The short name for the priorities which are throughout this document is create, grow, invest and advance.

Safe and vibrant neighborhoods provide support for at-risk and ex-offender populations, and promote community partnerships and citizen participation. Included in this budget is increased funding for Police and Fire to ensure the maintenance of a work force at effective staffing levels. This budget also continues support for the “gun down” program, which is a Memphis Police Department Outreach Program focusing on reducing crimes among the youth through positive alternatives and targeted interventions. In addition to public safety, the FY2016 budget increases environmental safety with an increase in funding for blight of \$3.0 million.

Growing prosperity for all improves business incentives and business-related government processes and eliminates barriers related to economic issues. On September 18, 2014, Forbes Magazine noted Memphis #9 on the list of Opportunity Cities: Places where it is easier to make your mark. Newly announced expansions or relocations by IKEA, Mitsubishi, Electrolux, and Cummins are just a few of the industries making their mark in Memphis. Small businesses are also contributing to growing prosperity.

Investing in our young people focuses on education and develops opportunities to retain and attract youth for productive service to our businesses and communities. The FY2016 budget restores \$2.0 million to youth programs with employment and training for over 1,000 youth. This increase is in addition to an existing \$800k that remains in the budget to train youth ambassadors year round.

Lastly, advancing a culture of excellence in government reforms government processes and improves organizational coordination; clarifies customer service standards; improves internal quality assessment and accountability; and increases and improves opportunities for citizen feedback. Technology upgrades account for over a \$1.0 million increase in this budget. Those upgrades support quality assessment and transparency. New dashboards will be accessible via the internet to provide the communities feedback on the resolution of customer calls. This information will be updated every 15 days and will provide customers a variety of information relative to performance. Financial efficiency also allows the support of one of our major financial issues to ensure the solvency of the pension plan – a moral and legal imperative for the City and, for many retirees, their sole source of retirement income. The FY2016 budget includes \$48 million toward the funding of our pension annual required contribution (ARC). This means that in

two years we will have doubled our contribution to fully funding the ARC by 2020.

Although this budget recommends the use of \$13.3 million of reserves to pay for the transition to reduce retiree health care costs, the City will save over \$20M annually when the reforms that were initiated in FY2015 fully take place. The savings realized in health care will ultimately be reallocated to shore-up the pension system. The FY2016 Budget will deliver the aforementioned priority; spending without burdening the public with higher tax rates.

The Economic Impact on Budget Planning

Although the Memphis economy is diverse and the City is attracting new businesses, there is a correlating response in the performance of our local economy with that of the national economy. As such, The City of Memphis' FY2016 Budget is presented in the context of current economic conditions that are impacting the U.S. economy. Memphis generally lags behind the U.S. economy and now we stand poised to experience some moderate growth. Consequently, this budget is predicated on the continuing assumption that the Memphis Metropolitan Statistical Area (MSA) will experience growth during FY2016, which is reflective of the anticipated economic performance of the U.S. economy in general. Growth for the Memphis economy will be most prominently seen in tax revenues and jobs. A more detailed discussion of the Memphis economy is provided in the 2015-2016 Economic Outlook discussion prepared by the University of Memphis and presented later in this overview.

Performance Accountability Plans

The City's Mission is to provide responsive and cost effective services to meet the priorities listed above. In order to achieve that mission, the City must review its performance and adjust as needed.

The City of Memphis is committed to continuous improvement and transparency. To that end, we are implementing a comprehensive performance measurement system that builds on the City's previous performance data initiatives. The new system, MEMFacts, will give leadership a dynamic, top-down view of the full range of City operations, and the ability to evaluate progress against service delivery goals and strategies developed to meet the needs of our customers. It will also enable customers to see and download performance data on the City. The public-facing MEMFacts dashboard will go live late in the fall of 2015.

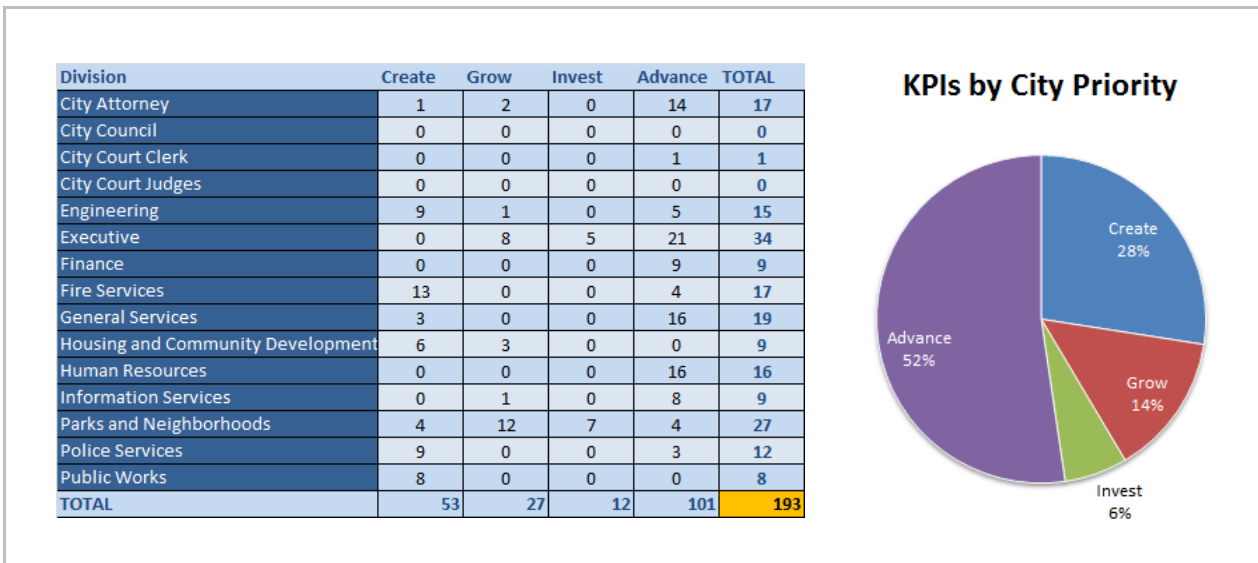


PERFORMANCE MANAGEMENT IN MEMPHIS

To execute this comprehensive performance system, the City of Memphis has established an Office of Performance Management. This Office will manage the performance review process as well as the public-facing and internal MEMFacts performance dashboards. These efforts will give the public and City staff easy access to the information they need, and serve as new management accountability tools for both operational and fiscal management.

To make good use of its integrated performance data, the City has also established a business process that includes regular and recurring performance reviews to address divisional issues, as well as issues that cross divisional lines. As has been the case in recent years, each Division’s budget section includes an update of that division’s key performance indicators.

A summary of the performance Key Performance Indicators (KPI’s), which align each division’s mission and performance objectives to the overarching City mission and priorities, is provided below. More details on the actual KPI results and goals for FY2016 are contained in each divisional section presented in this document.



Summary Discussion of All Funds

General Fund Discussion

Revenues

The revenue budget was developed relying on management’s trend experience and economic research by the University of Memphis (U of M), with particular focus on the forecast and trends for the top ten revenue sources.

Generally, revenues are increasing because of the improved economy. This is noted by increases in Local and State Tax revenue. Also, increases from Transfers- In, and PILOT revenue are significant. A planned use of fund balance provides the budget with sufficient resources to cover budgeted expenditures. The FY2016 *General Fund Revenue Budget* is \$658 million compared to FY2015’s \$618 million.

REVENUES

Fund Type	FY2015 Adopted	FY2016 Adopted	Inc./ Dec
General Fund	\$ 617,936,321	\$ 658,055,168	\$ 40,118,847

Notable FY 2016 budget revenue increases and decreases are as follows:

- \$ 7.4 million – Property Tax Growth
- \$ 4.0 million – Local Sales Tax Growth
- \$ 1.5 million – State Sales Tax Growth
- \$ 2.1 million - State Income Tax Growth
- \$ 1.0 million - Transfers- In from the Arena Fund – Repayment of a Loan
- \$ 6.3 million - PILOT Growth
- \$ 13.3 million - Contribution From Fund Balance
- \$ 4.9 million - Mixed Drink Tax Proceeds
- \$ (0.6) million – Miscellaneous Revenue Net Increases and Decreases



Expenditures

The FY2016 *General Fund Expenditure Budget* is balanced to the revenues and is budgeted also at \$658 million. For FY2016, the budget adds spending for safety, blight, technology, and youth programs. Although the City has restructured its Other Post Employment Benefits (OPEB), by reducing the amount of benefit recipients, the City will continue to pay retiree healthcare costs for persons that are not eligible for Medicare, and the administration will identify ways to ease the transition of OPEB changes to all impacted employees and retirees. In essence, OPEB changes will not leave our former employees without viable and effective healthcare options. To sustain this cost until the retiree healthcare transition is complete, \$13.5 million above the FY2015 adopted budget is included in the FY2016 adopted budget.

While sustaining some OPEB benefits a bit longer than planned (until January 2016) increases the budget, other spending remains aligned with maintaining sufficient resources for core government services. Any expenditure increases are paid for from revenue growth and the FY2016 tax rate remains the same as the prior fiscal year.

EXPENDITURES

Fund Type	FY2015 Adopted	FY2016 Adopted	Inc./ Dec
General Fund	\$ 617,854,916	\$ 658,055,169	\$ 40,200,253

Notable expenditure changes are as follows:

Expenditure Increases:

- \$ 7.0 million – Police and Fire Recruit Classes
- \$ 3.8 million – Pension ARC funding`
- \$ 13.5 million – Healthcare Costs
- \$ 2.0 million – Summer Youth Program
- \$ 7.0 million - Technology, New Building Services
- \$ 3.0 million - Blight
- \$ 3.2 million - Support for Schools – Mixed Drink Tax Proceeds
- \$ 5.4 million - Part Time Salaries and Overtime

Expenditure Decreases:

- \$ - 2.9 million – Lower Fuel Costs
- \$ - 2.0 million – Reduced Grant Funding – *Economic Development (EDGE), Various*

The administration remains committed to seeking and evaluating opportunities to increase efficiencies and ensure the most cost effective service delivery options are in place.

OTHER FUNDS OVERVIEW

The following discussions relative to all other funds is summary information. More detailed discussions or financial information can be found in their respective sections in this document.



Debt Service Fund Overview

The Debt Service Fund provides for the accumulation of resources for the payment of principal, interest, and other costs of the City’s debt. A major source of Debt Service Fund revenue is provided by an apportionment of the property tax rate. The City’s debt has been certified by Moody’s and S & P as AA. Recently the City’s General Obligation portfolio was restructured to reduce debt payments over the next five years to free up funds to meet increasing Pension annual required contribution commitments.

The total Debt Service Fund expenses for FY2016 will be \$161M. This is only \$437K greater than the prior year.

The total fund balance of the Debt fund will remain positive and exceed \$48.0 million at the end of FY2016.

DEBT FUND

Fund Type	FY2015 Adopted	FY2016 Adopted	Inc./ Dec
Debt Fund Expenses	\$ 160,796,622	\$ 161,234,105	\$ 437,483

Enterprise Funds Overview

Enterprise Funds account for the acquisition, operation and maintenance of the City’s facilities and services that are entirely or predominantly supported by user fees. Strategies for the enterprise funds include paying for capital requirements. In the Sewer Fund, capital expenses for FY2016 will again be paid for without the issuance of Sewer Revenue bonds. Capital purchases for the Storm Water Fund will be financed by G.O. bonds; however the debt service for those bonds will be paid by Storm Water Fund revenues. There are no rate increases in FY2016 proposed for these funds.

ENTERPRISE FUND

Fund Type	FY2015 Adopted	FY2016 Adopted	Inc./ Dec
Sewer Treatment Fund Expenses	\$ 88,997,823	\$ 103,775,750	\$ 14,777,927
Storm Water Fund Expenses	\$ 23,599,876	\$ 23,281,145	\$ (318,731)
	<u>\$ 112,597,699</u>	<u>\$ 127,056,895</u>	<u>\$ 14,459,196</u>

Fiduciary Fund Overview

The OPEB Fund increased premiums to cover rising healthcare costs. As noted earlier, the City is decreasing the potential liability of OPEB by restructuring cost to exclude pre 65 retirees, spouses with coverage options from other sources, and persons eligible for Medicare. These are viable options for our retirees and the City is assisting this group to select their best option. Only those pre and post retirees unable to obtain Medicare or meeting certain special circumstances will remain in the OPEB Fund. This will decrease our OPEB liability significantly.



FIDUCIARY FUND

Fund Type	FY2015 Adopted	FY2016 Adopted	Inc./ Dec
OPEB Fund Expenses	\$ 60,879,455	\$ 41,611,826	\$ (19,267,629)

Internal Service Funds Overview

Internal Service Funds (ISFs) are used to budget for services provided by the fund to other General Fund City Divisions. The City of Memphis’ ISFs are the Healthcare Fund, the Fleet Fund and the Unemployment Compensation Fund. The costs of these funds are reimbursed by the divisions utilizing the goods and services provided by the ISFs.

Healthcare premiums have been increased by 24% to ensure that this fund has sufficient revenue to cover costs. However, the continued support to the OPEB fund causes this fund to generate only a small surplus for FY2016. The support by the Healthcare Fund to the OPEB fund will discontinue after FY2016.

The Fleet Fund’s lower expenses reflect a change in how personnel costs are recorded and lower cost for fuel. This personnel change will result in the Fleet Fund achieving a positive fund balance now and into the future.

INTERNAL SERVICE FUND

Fund Type	FY2015 Adopted	FY2016 Adopted	Inc./ Dec
Health Care Fund Expenses	\$ 84,208,751	\$ 78,326,820	\$ (5,881,931)
Fleet Management Fund Expenses	\$ 30,941,412	\$ 27,279,007	\$ (3,662,405)
Unemployment Fund Expense	\$ 800,000	\$ 650,000	\$ (150,000)
	<u>\$ 115,950,163</u>	<u>\$ 106,255,827</u>	<u>\$ (9,694,336)</u>

Special Revenue Funds Overview

Special Revenue Funds (SRFs) budget revenues and allocate expenses to support the purpose for the revenue received. Solid Waste and Metro Alarms are the major Special Revenue Funds. The largest fund, Solid Waste (SW), reduced its SW fees in accordance with a prior year agreement, which rolled back rates to FY 2014 levels. This reduction continues for FY 2016. The SW fund has increased its expenses to pay for new lease expenses for packers.

THE MLK fund shows no budget. This fund will be closed in FY2016 and the operations will be absorbed into the General Fund.

Other funds that comprise the Special Revenue Fund have no material variances from the FY 2015 adopted budget. More information pertaining to the SRFs can be found in the Special Revenue section of this document.

BUDGET OVERVIEW

SPECIAL REVENUE FUND

Fund Type	FY2015 Adopted	FY2016 Adopted	Inc./ Dec
State Street Aid Fund Expenses	\$ 16,568,300	\$ 16,568,300	\$ -
Solid Waste Fund Expenses	\$ 68,231,496	\$ 63,220,891	\$ (5,010,605)
Drug Enforcement Fund Expenses	\$ 3,832,000	\$ 4,227,500	\$ 395,500
Metro Alarm Fund Expenses	\$ 624,425	\$ 385,599	\$ (238,826)
Park Special Services Fund Expenses	\$ 166,752	\$ 166,752	\$ -
MLK Improvement Fund Expenses	\$ 151,090	\$ -	\$ (151,090)
Hotel/Motel Occupancy Tax Fund Expenses	\$ 4,151,457	\$ 5,554,530	\$ 1,403,073
New Memphis Arena Fund Expenses	\$ 3,470,000	\$ 4,554,530	\$ 1,084,530
	<u>\$ 97,195,520</u>	<u>\$ 94,678,102</u>	<u>\$ (2,517,418)</u>



The 2015-2016 Economic Outlook

The 2015-16 City of Memphis fiscal year will see the outlook for economic growth, income and job creation improve as a result of much anticipated improvements in the national economy. The Memphis economy historically expands most rapidly during periods of strong national economic growth. While the economic malaise in Europe, Asia and most of the developing world limits global opportunities, the 2015-16 U.S. economic outlook is for continued expansion and higher GDP growth than occurred in the prior year. The threat of rising interest rates has been postponed by the absence of inflationary pressures and the still fragile economic balance that exists with the national economy. The growth plans of most businesses over the next year depend upon the improved growth forecast for the year.

The economic outlook is increasingly negative in all areas of the world except for the U.S. and a few other nations. While corporate profits continue to be strong, profit expectations for the coming year remain constrained by the threats to economic growth. Multiple rounds of quantitative easing will sow the seeds for both economic expansion and inflation in many areas of the world. The U.S. economy seems well positioned to take advantage of the economic opportunities that will be generated domestically and internationally over the next few years. Investments in new plants and capital equipment will be generated in nearly every sector with the possible exception of the bubble based petroleum industry.

Inflation, traditionally seen as a sign of an overheated economy, will remain low over the next year. The ability of companies to increase prices and still sell goods and services will be limited by the employment and income challenges faced by consumers and the growing intensity of global competition. Competition will remain high and put downward pressure on wages and prices. Like businesses, communities will be challenged to do more with less as job creation slowly gains momentum and as income growth begins to recover.

In general, the economic trends expected for the U.S. in 2015-16 include the following:

1. Improvements in economic and job growth;
2. Little inflation;
3. Low interest rates;
4. Declining unemployment rates and labor force reductions;
5. Slow housing recovery;
6. Modest income growth.

The economic trends expected for Memphis include the following:

1. Tax revenues will grow slowly;
2. The MSA population will continue to grow while the Memphis population will decline;
3. Job growth will improve as the economy improves;
4. The out-migration of people and jobs will continue;
5. Job creation in be spread across manufacturing, construction and service industries;

- 6. Low cost of living and housing remain assets for Memphis;
- 7. Low taxes and no earned income tax continue to make Memphis attractive,
- 8. Abundant cultural amenities.

Memphis enjoyed the ride up the economic elevator during the housing bubble of the early part of the first decade of the 21st century. And, as in most major U.S. cities, the Memphis economy and its employment suffered a tremendous let down with the housing bust and the Great Recession. Further, the economic recovery, post-Great Recession, has been painfully slow. Standing still is the new measure of success for many communities and Memphis is no exception. However, the next few years should see some positive gains in employment and income for Memphis.

While slow growth may feel like not much progress is being made, Chart 1 shows that the Memphis MSA has been growing continuously since January of 2011. The data in Chart 1 show the seasonal employment ups and downs for the Memphis MSA over time. Peak to peak employment occurs repeatedly in November and December as seasonal employment spikes occur followed by employment declines in January. Looking past seasonal variations at the trend line reveals a path of growth: a slow path, but still a growth path.

Chart 1. Memphis MSA Employment (000), January 2009-December 2014

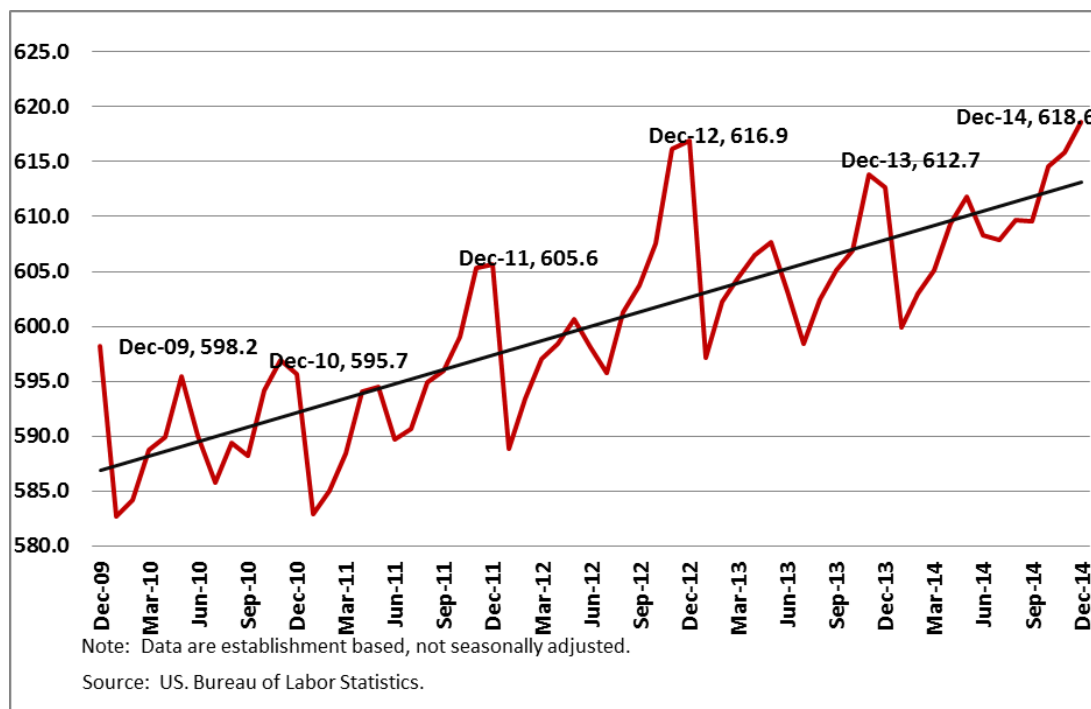


Chart 2 reveals the major reason why current economic conditions may not feel very good in comparison to other economic recovers. Employment in the Memphis MSA peaked at nearly 641,000 jobs in 2007, while bottoming out in 2010 at just over 590,000. After losing nearly 51,000 jobs, the MSA has only gained back 19.5 thousand since. So while our growth is good, it is easy to understand why it feels like one large step backward and two small steps forward.

Chart 2. Memphis MSA Employment (000), 2000-2014

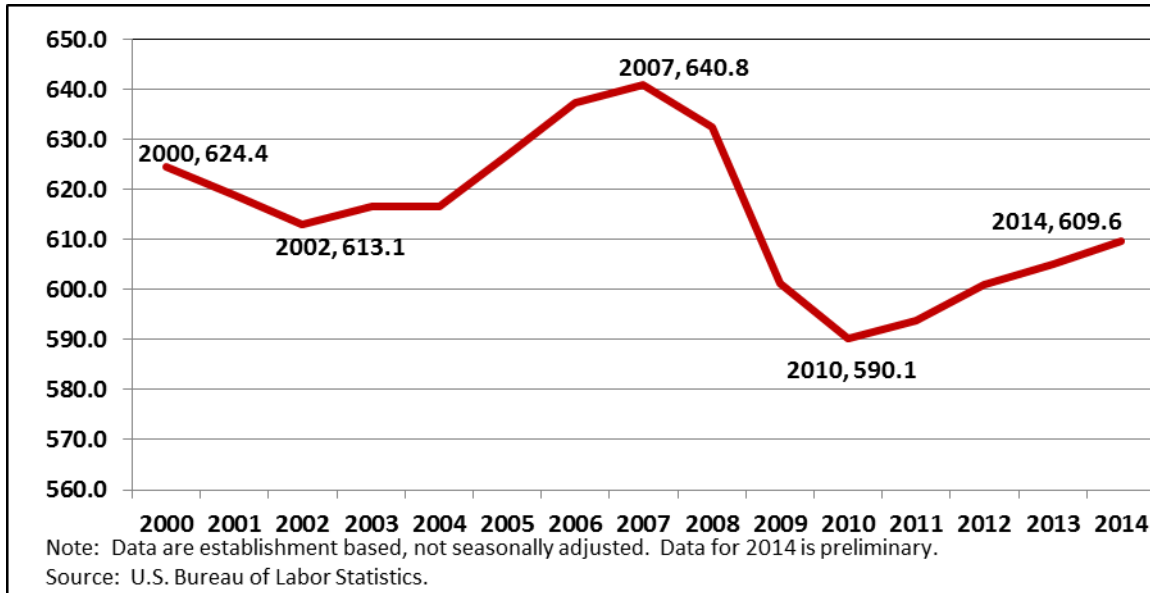


Chart 3 shows the trends for unemployment rates for Memphis, Tennessee and the nation. It is clear that employment growth has had a positive impact in reducing unemployment nationwide and in the Memphis MSA. The unemployment rates presented in Chart 3 do not include persons marginally attached to the labor force or persons employed part-time for economic reasons. The broader measure that includes these persons (known as U6) increases the national unemployment rate for December 2014 to 11.2%, more than double the standard unemployment rate (the U3 unemployment rate) of 5.6%. Further, some of the declines are associated with reductions in the number of people looking for work. While unemployment and underemployment remain a national problem, the situation is improving and will improve in Memphis as well.

Chart 3. Unemployment Rate, U.S., Tennessee, Memphis MSA, December 2004-December 2014

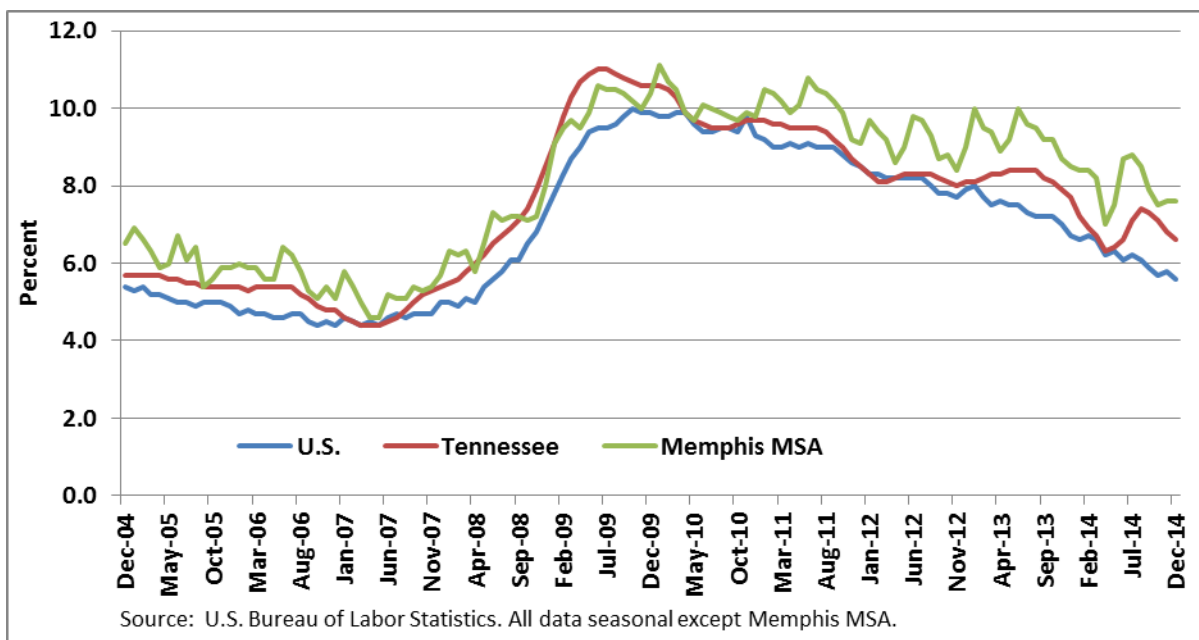


Table 1 provides more detailed employment data by industry and reflects overall improvement in the local economy. In percentage terms, mining and construction is the big winner with 15.1% growth over 2013 while employment in financial activities was second with 8.3% growth. Since there is very little mining within the MSA, most of the growth in mining and construction is attributable to construction. Outside of government, only two sectors shrank in 2014: information (-1.7%) and professional and business services (-1.2%). While the long term trend has been for manufacturing employment to decline, 2014 was a year of growth with approximately 500 new jobs.

Table 1. Memphis MSA Employment by Industry, December 2014 and 12 Month Percent Change

	Total Employment (000)	12 Month Percent Change
Total Nonfarm	618,600	1.0%
Mining & Construction	22,100	15.1%
Manufacturing	45,300	1.1%
Retail Trade	66,400	1.7%
Transportation & Utilities	66,100	3.4%
Information	5,900	-1.7%
Financial Activities	30,000	8.3%
Professional & Business Services	89,800	-1.2%
Education & Health Services	86,500	0.1%
Leisure & Hospitality	64,800	2.4%
Other Services	24,300	0.8%
Government	82,300	-2.0%

Source: U.S. Bureau of Labor Statistics. Data are NOT seasonally adjusted.

In addition to the rebirth of the area’s construction industry, the opening of Bass Pro in The Pyramid will generate positive momentum for the local economy and for the downtown area of the city. In addition to hundreds of new jobs, Bass Pro may bring with it thousands of tourists and visitors to Memphis, much needed tax revenue, and spending throughout the local economy. The coming addition of IKEA will also bring with it retail tourism and tax dollars. Manufacturing jobs are also returning to the City with firms like Mitsubishi, Cummins, and Electrolux. Memphis is well on its way to a full recovery in the coming year.

